

STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION

COPY

IN THE MATTER OF THE HEARING CALLED  
BY THE OIL CONSERVATION DIVISION FOR  
THE PURPOSE OF CONSIDERING:

APPLICATION OF CELERO ENERGY II, LP TO      CASE NO. 14047  
REOPEN CASE NO. 14047 FOR EXPANSION OF  
A WATERFLOOD PROJECT, CHAVES COUNTY,  
NEW MEXICO

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE:      DAVID K. BROOKS, Legal Examiner  
             RICHARD EZEANYIM, Technical Examiner  
             TERRY G. WARNELL, Technical Examiner

November 13, 2008

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Legal Examiner, RICHARD EZEANYIM, Technical Examiner, and TERRY G. WARNELL, Technical Examiner, on Thursday, November 13, 2008, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY:      JOYCE D. CALVERT, P-03  
                 Paul Baca Court Reporters  
                 500 Fourth Street, NW, Suite 105  
                 Albuquerque, New Mexico 87102

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FOR THE APPLICANT:

James G. Bruce, Esq.  
ATTORNEY AT LAW  
P.O. Box 1056  
Santa Fe, New Mexico 87504

1 MR. EZEANYIM: At this time, we call Case No. 14047.  
2 This case is the Application of Celero Energy II, LP to Reopen  
3 Case No. 14047 for Expansion of a Waterflood Project. This is  
4 in Chaves County, New Mexico.

5 Call for appearances.

6 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,  
7 representing the applicant. I have one witness, a Mr. John  
8 Anderson.

9 MR. EZEANYIM: Any other appearances, please? May  
10 the witness please come up to be sworn, and state your name.

11 THE WITNESS: John Anderson.

12 MR. EZEANYIM: You may proceed, Mr. Bruce.

13 JOHN EDWARD ANDERSON

14 after having been first duly sworn under oath,  
15 was questioned and testified as follows:

16 DIRECT EXAMINATION

17 BY MR. BRUCE:

18 Q. Would you please state your name and city of  
19 residence for the record.

20 A. John Edward Anderson, Colleyville, Texas.

21 Q. And who do you work for and in what capacity?

22 A. Celero Energy, and I'm a petroleum engineer.

23 Q. Have you previously testified before the Division  
24 as a petroleum engineer?

25 A. Yes.

1 Q. And were your credentials as an expert accepted  
2 as a matter of record?

3 A. Yes.

4 Q. Were you the engineer who testified at the  
5 original hearing in this matter?

6 A. Yes, sir.

7 Q. And are you familiar with the engineering matters  
8 related to this case?

9 A. Yes, sir.

10 MR. BRUCE: Mr. Examiner, I tender Mr. Anderson as an  
11 expert petroleum engineer.

12 MR. EZEANYIM: Mr. Anderson is so qualified.

13 Q. (By Mr. Bruce): Mr. Anderson, what did Celero  
14 request in the original case or at the original hearing in this  
15 matter?

16 A. Celero requested permission to reactivate and  
17 expand the Caprock-Queen waterflood project on the Trigg  
18 Federal lease covering approximately 1440 acres of land.

19 Q. Was the application granted?

20 A. Yes, sir, in Order No. R-12912, subject to  
21 certain work being performed on all wells in the area of review  
22 of each injection well before injection would be allowed.

23 Q. And how many injection wells will there be on  
24 this lease waterflood project?

25 A. Twelve in the first phase and 23 total.

1 Q. What is Exhibit 1, Mr. Anderson?

2 A. Exhibit 1 is a portion of the Order No. R-12912,  
3 which on page 5 contains the provisions in paragraphs 4 and 6  
4 requiring that all remedial work be performed before any  
5 injection may proceed.

6 Q. And what is Celero requesting in this reopened  
7 case?

8 A. We are requesting that injection be allowed into  
9 each individual injection well when all necessary remedial work  
10 is performed on the well in that half-mile area of review of  
11 that particular injection well. This will allow us to proceed  
12 with injection much sooner and at a much more programmatic  
13 fashion.

14 Q. Would you identify Exhibit 2 for the Examiner and  
15 describe why you are requesting this relief?

16 MR. BRUCE: Mr. Examiner, I apologize for the exhibit  
17 marking on here, but the stamp wasn't brought out.

18 THE WITNESS: Exhibit 2 is a plat or a map showing  
19 the wells on the Trigg Federal lease which are highlighted in  
20 yellow. And it also contains in the gray dotted -- or dotted  
21 line surrounding it -- a half-mile area of review.

22 And what I wanted to point out here is that some  
23 additional information I put on here was that in green below  
24 the wells, the indication of P-r-o-d is that's an active  
25 producer. And if it has an I-n-j below a well, that's an

1 active injector. And you can see in the northern half of the  
2 Trigg Federal lease, there's approximately five wells that are  
3 actively producing and holding that lease representing about  
4 five barrels a day of production and about 432 barrels of water  
5 per day average -- I mean, for the total lease.

6 Q. Okay. So that five barrels a day is for all five  
7 wells combined?

8 A. All five wells combined. And outside the unit  
9 area, you can see in Section 10 in the W/2 of that, you can see  
10 there's several injectors and producers, and that area to the  
11 right is called the Drickey Queen Sand Unit.

12 Q. And again, that's operated by Celero?

13 A. That's operated by Celero. We have this year  
14 have begun a reactivation process for that unit. And you can  
15 see there are several injection wells and producers that we put  
16 online this year and trying to basically bring this unit back  
17 on production. For example, in that area there, we've got  
18 seven producers and four injectors, and those are averaging  
19 20 barrels of oil per day total and 2300 barrels of water per  
20 day.

21 What it represents is the fact that, of course, where  
22 you have injection support, you have a lot more production.  
23 And typically in the area of that W/2 of Section 10 where you  
24 have the injection support, the average production on that well  
25 is four barrels -- I mean -- is about five barrels of oil per

1 day.

2 Q. And in looking at the W/2 of section 10, you said  
3 those wells have just come back online in the past year or so?

4 A. Yes, sir.

5 Q. And so you have seen injection support on those  
6 wells?

7 A. Yes, sir. Yes. And it's very clear that  
8 typically when we put a well -- the injection support around  
9 there, you typically get a five- or six-barrel-a-day well at  
10 500 barrels of water production versus even in the southern  
11 half of the Drickey Queen Unit where we don't have injection  
12 support, you might get a barrel of oil per day and less than  
13 100 barrels of water per day.

14 So there is a significant difference in production  
15 and, of course, the associated economics of producing -- you  
16 know, having wells supported by water injection.

17 Q. Okay. And -- go ahead. Sorry.

18 MR. EZEANYIM: Yeah. Because I wanted to understand  
19 what you're saying here. On the S/2, what color is this? Is  
20 this red or brown where you have the circles, those injectors,  
21 are these injectors ready to inject now, the one with the  
22 circles?

23 THE WITNESS: No, not at this point. What I was  
24 trying to demonstrate there is if you look at the Trigg Federal  
25 No. 5 injection well, which is in the SE of the SE of



1 Section 4 --

2 MR. EZEANYIM: Yeah.

3 THE WITNESS: That's an injector that's surrounded by  
4 four active producers.

5 MR. EZEANYIM: Okay.

6 THE WITNESS: And all of those wells are producing --

7 MR. EZEANYIM: Five barrels?

8 THE WITNESS: Well, a barrel a day.

9 MR. EZEANYIM: A barrel a day each?

10 THE WITNESS: Right. And very little water; 60 or  
11 70 barrels a day of water.

12 MR. EZEANYIM: Yeah.

13 THE WITNESS: And that's one of the first ones I'm  
14 going to initiate reactivating. Before I do that, as we've  
15 talked about -- I mean, most of those producers are in good  
16 shape, but there are a couple of wells -- there's a plugged and  
17 abandoned well and some other wells that need to be either put  
18 back on production or properly plugged and abandoned so that  
19 the area of review, including that injection well, meets the  
20 requirements before we put that on injection. And, of course,  
21 we'd send that information to you and get approval to do that.

22 MR. EZEANYIM: So you are trying to comply with that  
23 order by making sure that all the area of review wells around  
24 that No. 5 --

25 THE WITNESS: Yes.

1 MR. EZEANYIM: Have been completed?

2 THE WITNESS: Right.

3 MR. EZEANYIM: Okay.

4 THE WITNESS: Right. And that's just one -- I mean,  
5 that would be the first one I would go to. Probably that No.  
6 12 in the NW of the NE/4 would be my second pattern I would  
7 look at. And, of course, I've got -- half the wells  
8 surrounding that are plugged and abandoned wells at this point  
9 in time.

10 But there's still some work that is providing  
11 injection support. And then, of course, going to north, the  
12 Trigg Federal No. 7, which is in the SE of NE/4, that's a  
13 plugged and abandoned well right now. So that would require  
14 re-entry. And, of course, we'd want to make sure we took care  
15 of remediating any work on the surrounding wells before we --  
16 and, of course, once we got that work done, we'd submit to the  
17 Division for their approval before we began injecting.

18 MR. EZEANYIM: Okay. But right now, the well is  
19 ready to inject?

20 THE WITNESS: We haven't rigged up on it yet. It's  
21 not ready to inject yet.

22 MR. EZEANYIM: So you have to do the area of review  
23 work around it?

24 THE WITNESS: That's right. And there are two or  
25 three wells that need -- none of them are ready, yet, but

1 that's the plan.

2 MR. EZEANYIM: Okay.

3 Q. (By Mr. Bruce): But, Mr. Anderson, you would  
4 like to at least start initiating injection one two or three  
5 wells in the Trigg Federal Unit to increase the production?

6 A. Yes, sir.

7 Q. And is the produced water from those wells mainly  
8 used for re-injection?

9 A. Yes, sir.

10 Q. So it's -- even though they produce a lot of  
11 water, they would still have the benefit of re-injecting it?

12 A. Yes, sir. We do have makeup water from a  
13 different source because we're going to have to have makeup  
14 water to fill up the reservoir to pressure it up. Because that  
15 80 or so barrels a day isn't sufficient to provide the complete  
16 recycle volumes. But we have that water supply.

17 Q. And I think you previously informed the Examiners  
18 that there are two or three other units around here also  
19 operated by Celero that work is ongoing?

20 A. Yes, sir.

21 Q. Do you have anything else, Mr. Anderson?

22 A. No, sir.

23 Q. In your opinion, is the granting of this  
24 application in the interests of conservation and the prevention  
25 of waste?

1 A. Yes, sir.

2 Q. And were Exhibits 1 and 2 prepared by you or  
3 compiled from company business records?

4 A. Yes, sir.

5 MR. BRUCE: Mr. Examiner, I move the admission of  
6 Exhibits 1 and 2. And in speaking with both you and with  
7 Mr. Brooks, it was determined that no notice was necessary of  
8 this application because all notice had been given for the  
9 original case, and no one had objected. So I am not submitting  
10 a notice.

11 MR. BROOKS: Correct. That was determined, yes.

12 MR. EZEANYIM: Okay. Exhibits 1 and 2 will be  
13 admitted.

14 [Applicant's Exhibits 1 and 2 admitted into  
15 evidence.]

16 MR. EZEANYIM: Any questions?

17 MR. BROOKS: No questions.

18 MR. WARNELL: No questions.

19 MR. EZEANYIM: You may step down. No questions.

20 MR. BRUCE: Thank you, Mr. Examiner.

21 MR. EZEANYIM: At this time, Case No. 14047 will be  
22 taken under advisement.

23 Let's take a ten-minute break before we go to the  
24 next two.

I do hereby certify that the foregoing is  
a complete record of the proceedings in  
\* \* \* the Examiner's hearing of Case No. 14047  
heard by me on 11/13/08

*[Signature]*, Examiner


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**REPORTER'S CERTIFICATE**

I, JOYCE D. CALVERT, Provisional Court Reporter for the State of New Mexico, do hereby certify that I reported the foregoing proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings and was reduced to printed form under my direct supervision.

I FURTHER CERTIFY that I am neither employed by nor related to any of the parties or attorneys in this case and that I have no interest in the final disposition of this proceeding.

DATED this 13th day of November, 2008.



JOYCE D. CALVERT  
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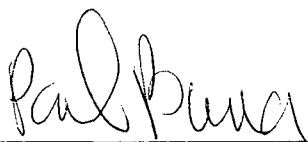
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8 stenographic notes. On the date I reported these proceedings,  
9 I was the holder of Provisional License Number P-03.

10 Dated at Albuquerque, New Mexico, 13th day of  
11 November, 2008.

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